Credit Card Payment Protection Plans Getting Federal Scrutiny

February 14, 2012 - Anyone who has ever had a credit card has probably seen a notice from their credit company that for "a low monthly fee" they purchase "payment protection". These plans are marketed much like insurance. They use pitch lines like, "If you lose your job, we'll pay your bill." But consumer organizations have been complaining for years that these plans are just a consumer rip-off, with high fees and very little reward. According to the American Bankers Association, banks actually make .79 cents on every dollar that consumers spend on the plans. Now, the Consumer Financial Protection Bureau is beginning a probe into the practices that banks use to sell them.

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So far, the CFPB probe is related only to Discover Card. But a much wider probe is becoming more likely.
You might think that the states would regulate payment protection plans just like any other insurance policy. The truth is, they tried to do that. But as we've said before, federal regulatory legislation that passes through congress and which usurps state regulatory authority is a bad idea. It almost always leads to unintended consequences. In this case, the federal courts said that Gramm Leach Bliley trumped state insurance laws. Since federally chartered banks were offering payment protection services, only the feds could impose regulations on them.

If payment protection plans had been regulated as insurance product, their profit margins would have been illegal at the state level. But it has been the Comptroller of the Currency that has had regulatory authority since the courts decided the matter. And that office has backed up the banks ever since.

The terms of payment protection plans would also likely be much different if the states had not been kicked out of the regulatory role. Without going into great detail, the terms of the plans are often cumbersome. In most cases, consumers who have to use a plan that they are enrolled in will find that while the plan will continue to pay on their existing balances, they will no longer be able to make new charges. And they may also find that they have to jump through endless hoops to get the plan to make regular payments for them.

Now regulatory authority is being transitioned to the CFPB. And they seem to be much more consumer oriented OCC. That's the good news. The bad news is that if banks find themselves regulated out of the business of offering payment protection plans, they are likely to find other ways to make up for the revenue loss.

As previously stated, these plans are immensely profitable for the banks. 24 million consumers are enrolled in at least one of these plans, and they amount to a $1.3 Billion profit stream for the banks. That is sizeable enough that if it goes away, it will be noticed.

It remains to be seen how deeply the CFPB probe looks into these plans but, the fact that they are looking is likely to mean that there will be changes to these plans in the future.

byJim Malmberg
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